

TO: Files

CC: San Diego Audit Committee

FROM: Willkie Farr & Gallagher LLP

RE: Interview of Conny Jamison on May 9, 2006

DATED: July 19, 2006

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On Wednesday, June 26, 2006, Sharon Blaskey, Michael Shapiro, and Heath Rosenthal, in Willkie Farr & Gallagher's ("Willkie") capacity as counsel to the Audit Committee, interviewed Conny Jamison. The interview took place in a conference room on the third floor of the San Diego City (the "City") Administration Building and lasted approximately three hours.

The following memorandum reflects my thoughts, impressions and opinions regarding our meeting with Ms. Jamison, and constitutes protected attorney work product. It is not, nor is it intended to be, a substantially verbatim record of the interview.

#### ***Warnings***

At the outset of the interview, Mr. Shapiro explained that Willkie represents the Audit Committee, not the City employees. Mr. Shapiro stated that although the material discussed during the interview would be treated as privileged, in the likely event that the Audit Committee issued a report, the privilege would be lost. Mr. Shapiro asked that Ms. Jamison keep the discussions that took place during the interview confidential. Ms. Jamison asked whether the interview would relate only to disclosure issues. Mr. Shapiro responded that the interview would cover pension, disclosure and Wastewater issues. Ms. Jamison said that she knew nothing about Wastewater.

#### ***Background***

Ms. Jamison stated that she began working for the City in 1978 as an entry level economist. A year later, she was promoted to the position of supervising economist. Three years later, the City's Treasurer was fired and Ms. Jamison was asked to be Treasurer. She served as a City Treasurer until her retirement in 2001.

Ms. Jamison earned her Bachelor of Science from Occidental College and received her masters in City planning from the University of California, San Diego. Mr. Shapiro asked Ms. Jamison if she was a Certified Public Accountant; Ms. Jamison responded that she was neither a Certified Public Accountant nor a Certified Financial Accountant.

*San Diego City Employees' Retirement Service ("SDCERS") Board ("Board")*

Ms. Jamison sat on the SDCERS Board during her tenure as the City Treasurer. She served as the chair of the Board's Investment Committee during her last four to five years on the Board, and sat on that Committee since she became a Board member. Ms. Jamison explained that every Board member was either on the Business or the Investment Committee, and she had been placed on the Investment Committee because of her educational and employment background. Ms. Jamison explained that the Board had a chief investment officer, Doug McCullough, who interviewed and screened investment managers. The Board's primary responsibility was to pay the retirees out of the pension trust. She said that the Board's secondary duties were fiduciary duties owed to the City, insofar as the Board would try to keep the City's costs paid into the trust low.

Mr. Shapiro asked how the Board members were trained. Ms. Jamison responded that the Board's fiduciary council and staff attorney, who were versed in pension law, would explain the Board's duties when new members joined the Board. She explained that it took several years for Board members to understand their responsibilities because it was a huge educational process. Ms. Jamison then said that she was not told her fiduciary duties when she first joined the Board, but that the Board encouraged its members to go to public pension fiduciary conferences. She also noted that Ed Ryan (City Auditor and Comptroller) would not attend these conferences because doing so would put him in a compromising position as he served as the City Auditor. Ms. Jamison also stated that the Board had an annual retreat during which Board members would learn about things such as asset management. She explained that it was a lot easier for her to understand investment matters than it was for the "laymen" on the Board. Ms. Jamison also said that the Board did an asset allocation every three years to determine the risk and return on its investments. Ms. Jamison responded that the Board members are also trained in the Brown Act.

Mr. Shapiro asked how Ms. Jamison's role as an ex-officio member of the Board compared to the roles of the other Board members. Ms. Jamison stated that she was in an odd position because the City Manager had a representative on the Board but she worked for the City Manager. She said that every time a new City Manager was appointed, she would tell that Manager that she thought she had an independent vote on the Board and would ask whether the Manager thought the same. Ms. Jamison stated that the Managers always told her that she did have an independent vote. However, she said that she did not get the feeling that City Manager Jack McGrory felt that way.

Ms. Jamison stated that she was involved with the City staff with respect to the investments as they appeared on the Board's monthly meeting agenda. She explained that the Board's chairperson talked to the City staff the most, and the Board itself did not have meetings with the staff. The City staff did, however, make recommendations about actions the Board took, but discussions with City staff did not occur outside of the Board meetings.

Mr. Shapiro asked Ms. Jamison how Board meetings were scheduled. Ms. Jamison explained that meetings were scheduled, pursuant to the SDCERS by-laws, on the fourth Friday of every month. Mr. Shapiro asked who prepared the minutes of the Board meetings. Ms. Jamison responded that Mr. Grissom's executive assistant, Sally Zumwalt, prepared the minutes. Ms. Jamison also noted that the minutes were not transcripts of the

meetings, but rather a record of motions and the votes on those motions. She added that Diann Shipione (Board member) wanted the Board minutes to reflect what Ms. Shipione had said at the meetings, and the Board tried to accommodate Ms. Shipione's request. Mr. Shapiro asked if the Board members read the minutes. Ms. Jamison said that most of them did read the minutes. Ms. Jamison said that the Board members generally received a large package of materials a week prior to each meeting. She added that they also received the agenda for the meeting at the same time that they received the meeting materials.

Mr. Shapiro asked who determined when an issue was to be discussed at a Board meeting. Ms. Jamison explained that a Board member would ask that an issue be scheduled, and the scheduling of the meeting was determined by the openings on the calendar. She added that most of the retirement issues were consent items, with the exception of disability issues. Ms. Jamison noted that firefighters and policemen are considered "suckers" if they don't ask for disability. She stated that the union representatives on the Board fought for their members because those Board members could not take off their "union hats" while serving on the Board.

Mr. Shapiro asked Ms. Jamison to describe her interaction, as Treasurer, with the Mayor. Ms. Jamison said that she had very little interaction with the Mayor because she worked for the City Manager. Mr. Shapiro asked what her interaction was with the City Council. Ms. Jamison stated that while serving as Treasurer she generally appeared before the City Council twice a year – to discuss the City's budget and tax anticipation notes. She stated that she was responsible for investing the City's cash, collecting all revenue, performing all banking debt collection, issuing tax anticipation notes and short term debt, and sitting on the pension Board. Mr. Shapiro asked whether Ms. Jamison partook in the City's financial disclosures. Ms. Jamison said that her only role with disclosure while she served as Treasurer related to tax anticipation notes. Her chief investment officer would only deal with documents that stated something about the Treasurer's office. Ms. Jamison added that she never went on road shows to the rating agencies.

Ms. Jamison stated that she did not deal directly with the City Manager. Rather, she would usually report to the Deputy City Manager, who at one point was Bruce Herring. Mr. Shapiro asked about the SDCERS Board's interaction with the City Manager. Ms. Jamison stated that most of the SDCERS Board did not see City Manager, but the City Manager had a representative on the Board. She said that the City Manager's representative used to change from time to time, but the Board did not think that was appropriate. Ms. Jamison added that the Manager's representative was supposed to wear the hat of a pension Board member and not the hat of the City Manager, but that was difficult for the representative to accomplish. She stated that Cathy Lexin (Human Resources Director) did not take her City official hat off while serving on the Board. Ms. Jamison explained that during the MP-2 proceedings in front of the City Council, Ms. Lexin sat at pension table but walked away to talk to the City Manager. Ms. Jamison said that she did not think that Ms. Lexin had a lot of influence over the Board. She added that Terri Webster (Deputy Auditor and Comptroller) would not be influenced by Ms. Lexin. Ms. Jamison also said that Mary Vattimo (who became City Treasurer) was most influenced by Patricia Frazier and noted that if Mr. McGrory or Michael Uberuaga (City Manager) said "jump," Ms. Vattimo would ask "how high?" She stated that Mr. Frazier was intimidating. She also added that Sharon Wilkinson (Board Member) was very independent.

Ms. Jamison said that the Board did not interact with the City Council. She stated, however, that Mr. Grissom met with newly-elected City Council members to discuss their benefits and talked to the City Council from time-to-time. Ms. Jamison added that Ron Saathoff (Board Member) interacted with the City Council in his role as president of the firefighters' union. She stated that Mr. Saathoff would do anything he could to get his way and leverage for his union's members. Ms. Jamison felt that new people on the Board thought he was very smart because he gave an opinion on everything. She stated that Mr. Saathoff was very political, but she liked him. Ms. Jamison also said that negotiating was very important to Mr. Saathoff. For example, Ms. Jamison said that during MP-1, Mr. McGrory loved to negotiate without caring about the result as long as a deal closed, but Mr. Saathoff cared about the result.

Mr. Shapiro asked Ms. Jamison about the Board's interaction with City officials. Ms. Jamison said that Ed Ryan (City Auditor and Comptroller) was on the Board for a number of years, but he began sending Ms. Webster to the Board around 1992 or 1993. Ms. Jamison explained that Mr. Ryan was upset with the City Manager because he believed that the City Manager was not active enough with the Board. She said that Mr. Ryan once told her that he had nothing to do with the Board once Ms. Webster took his position on it. However, later in the interview Ms. Jamison stated that it was hard to believe that Mr. Ryan did not discuss the Board's issues with Ms. Webster or that she did not keep him informed at a minimum. Ms. Jamison added that Scott Peters (Council Member) and other City Officials felt that Mr. Ryan listened to what they had to say. Ms. Jamison heard from numerous people that the City staff was afraid to confront Mr. Ryan and as a result he did not get the full benefit of the staff's thoughts. However, she stated that she could not think of any time when Mr. Ryan was not working in the City's best interests and that Mr. Ryan would speak up against basic accounting principles. Ms. Jamison surmised that Mr. Ryan's staff was afraid of him because of his temper. Mr. Shapiro later asked which City official had the most interaction with the Board; Ms. Jamison answered Mr. Herring.

Mr. Shapiro asked about the Board's interaction with the labor unions. Ms. Jamison stated that representatives of the labor unions would come to Board meetings during the time surrounding MP-1 and MP-2. She explained that the Board voted on the administration of the plan but not on the benefits. Ms. Jamison noted that all of the Board members were dedicated to the fund, but the retiree member representative pushed for benefits. She also stated that Ms. Lexin and Mr. Saathoff never took off their City and union hats while serving on the Board, respectively. Later in the interview, Ms. Jamison added that Mr. Saathoff argued for all firefighters' disability payments and she did not think that was appropriate because it was like the firefighters had an attorney on the Board. Ms. Jamison said she did not usually have a conflict of interest by serving on the Board and being employed by the City, except when she had to work with the City Manager.

Mr. Shapiro asked Ms. Jamison if the Board discussed the conflicts she had just described. Ms. Jamison said that the Board members consistently received the same legal advice: *They were getting benefits, but there was no one else who could vote for the benefits and there existed an exception under the law that permitted them to exercise such a vote.* Ms. Jamison explained that the Board voting on the benefits was discussed thoroughly. She said it was like the City Council voting on their own salary; there was no one else who could do it.

#### ***Retiree Healthcare Benefit***

Mr. Shapiro showed Ms. Jamison a February 26, 1996 memorandum from Mr. Grissom to Keith Enerson (Board President) (Exhibit 1) regarding bifurcated rates for post retirement healthcare benefits. Ms. Jamison stated the memorandum described the time during which she found out that the City expected SDCERS to pay retiree health benefits. She said this occurred through "behind-the-scenes accounting shenanigans." She said it was already a "done deal" when she learned about it. Mr. Shapiro then showed Ms. Jamison a February 12, 1996 memorandum from Mr. Herring to John Kaheny (Assistant City Attorney) (Exhibit 2). Ms. Jamison said that she never saw the memorandum, but that it represented the City Manager asking the City Attorney's office how to continue using a bifurcated rate system despite an opinion from Morrison & Forrester that such a practice was not permissible. She added that the memorandum did not mean that the Board wanted a bifurcated rate system implemented.

Mr. Shapiro asked Ms. Jamison why the Board replaced Morrison & Forrester as its outside counsel. Although Ms. Jamison responded that she did not have a precise recollection as to the reason for the change, she believed that certain Board members, Mr. Saathoff in particular, did not like the opinions rendered by Morrison & Foerster and were shopping for better opinions. She explained that the rest of the Board did not really care who the counsel was, so they did not really argue with the change.

Later in the interview, Ms. Blaskey showed Ms. Jamison a February 26, 1996 memorandum from Mr. Grissom to Mr. Enerson (Exhibit 3) that related to the bifurcated rates of the retirement healthcare benefit. Ms. Jamison said that this document reflects another instance in which someone did not like the Board's counsel Joe Wyatt's opinion.

### **SDCERS Actuary and Actuarial Valuation Methods**

Mr. Shapiro asked Ms. Jamison for her opinion of the SDCERS actuary, Richard Roeder. Ms. Jamison said that she "liked Mr. Roeder a lot" and agreed with him, generally, on most issues. Ms. Jamison stated that most of the Board members did not have any idea what Mr. Roeder was talking about. Earlier in the interview, Ms. Jamison stated that she still does not understand the "actuarial language." She added that the Board members did ask Mr. Roeder questions and they received some primers about actuarial methods, especially when they discussed changing from one actuarial method to another. The Board also asked a lot of questions about assumptions, especially if the numbers were ones they did not like, *i.e.*, when the assumptions resulted in the City having to pay a lot into SDCERS. She also recalled heated discussions about what was included in the actuarial valuation, *i.e.*, the 13<sup>th</sup> Check and the *Corbett* settlement. Ms. Jamison stated that Mr. Roeder would change the actuarial assumptions if he thought doing so was appropriate.

Mr. Shapiro asked why the Board changed from its use of the Entry Age Normal ("EAN") actuarial valuation method to the Projected Unit Cost ("PUC") actuarial method. Ms. Jamison responded that, at first, the Board had been told that one method would cause the rate to be more stable. However, the rate ended up fluctuating under that method, and therefore the Board was subsequently told that the other method would result in a more consistent rate. Mr. Shapiro asked Ms. Jamison's thoughts on Mr. Roeder's opinions on the managers proposals. Ms. Jamison stated that she believed that Mr. Roeder's personal opinion about MP-1 and MP-2 was much stronger than the professional opinion he gave to the Board about those manager's proposals. Ms. Jamison explained that Mr. Roeder did not personally agree with MP-1 or MP-2.

Rather, he was in front of the Board only to "give the numbers." Ms. Jamison wished Mr. Roeder had given a stronger opinion about MP-2. She elaborated that when she spoke out against MP-2, Mr. Roeder sent an e-mail to her thanking her. Ms. Jamison stated that she told Mr. Roeder that she did not like MP-1 but Mr. Roeder and SDCERS's outside counsel felt that the trigger protected the system, so she voted for MP-1. Nevertheless, Ms. Jamison did not think that Mr. Roeder wanted to support MP-1. However, she could not get either Mr. Roeder or SDCERS's outside counsel to say a negative thing about the proposal. Ms. Jamison also believed that Mr. Grissom also thought MP-1 was a bad idea.

Mr. Blaskey showed Ms. Jamison an e-mail chain ending with a July 9, 1999 e-mail from Ms. Webster to Mr. Grissom regarding "Non Responsive Actuary or Net Pension Obligation - Reply" (Exhibit 4). Ms. Blaskey asked what the Board thought of Mr. Roeder's competence. Ms. Jamison stated that she never heard anyone say anything negative about Mr. Roeder's ability to do his job, including Mr. Grissom. Ms. Blaskey pointed out that Ms. Jamison received at least a portion of the e-mail chain. Ms. Jamison said that the e-mail rang some bells about Mr. Roeder's non-responsiveness, but she said that the problems did not relate to his competence, because he was not a bad actuary. Ms. Blaskey read from Ms. Webster's July 8, 1999 e-mail to Mr. Grissom: "The important point is that we need independent, third party, actuary numbers . . . not ones we do ourselves. That is why SDCERS has an actuary." Ms. Jamison responded that the e-mail appeared to be an argument between Mr. Roeder and Ms. Webster. Ms. Jamison elaborated that Ms. Webster needed numbers for her financials and her request for information from Mr. Roeder was not the Board's request.

Ms. Blaskey then showed Ms. Jamison a document entitled "Adoption of SDCERS' FY 99 Actuarial Valuation" (Exhibit 5) and pointed out that the minutes reflected Ms. Jamison's questioning of the need to create a reserve. Ms. Jamison did not recall her concern.

### ***MP-1***

Ms. Blaskey showed Ms. Jamison February 28, 1994 minutes of the Manager's Actuarial Subcommittee meeting (Exhibit 6). Ms. Blaskey asked whether the subcommittee was created by Mr. McGrory as a precursor to MP-1. Ms. Jamison stated that there was an anticipation of a large increase in the City's contribution rate, and the City spent a year and a half preparing MP-1. Ms. Jamison added that she sent a letter to Mr. McGrory stating that she did not support MP-1 without a cap just prior to the Board's vote on MP-1. She said it was not actuarially sound. Ms. Jamison stated that Mr. Roeder did not tell her MP-1 was actuarially sound.

Ms. Jamison said that she discussed her reservations about MP-1 with Mr. Grissom and Ms. Chapin. She also stated that she probably told Mr. Ryan that MP-1 was a "horrible idea." Ms. Blaskey asked whether any other Board member agreed with Ms. Jamison's negative opinion of MP-1. Ms. Jamison responded that Ann Parode (Board Member) had similar feelings about MP-1. Ms. Jamison added that there were legal problems with the original version of MP-1, but she was not really aware of the union negotiations while they were occurring. Ms. Blaskey asked who voted against MP-1. Ms. Jamison stated that she believed that three people, including Ms. Parode, voted against MP-1. She said that Ms. Parode said that MP-1 was "unconscionable." She also stated that John Casey (Board Member) left the Board meeting prior to the vote on MP-1. Ms. Jamison said that Mr. McGrory called her into his office

before the vote on MP-1 took place and told her she was not a team player. She said that she had privileges withdrawn after the vote on MP-1, even though she had voted for it. Ms. Jamison said that her director status was taken away. She added that MP-1 had support because the City Council and Mr. McGrory were not going to be around in ten years and the stock market was so rich that people involved thought the ratio would be increasing. Ms. Jamison went on to say that Mr. Herring and Mr. McGrory did not have a financial background and did not understand money markets. She spoke with Mr. Herring who thought the stock market would remain in good shape and the pension system would always have a good return.

Ms. Blaskey showed Ms. Jamison a March 16, 1995 memorandum from Mr. Grissom to the Retirement Board regarding the "Corridor Concept Subcommittee" (Exhibit 7) and asked Ms. Jamison to explain the corridor concept. Ms. Jamison stated that the corridor concept was a precursor to the trigger concept. She said that there was "a lot of shenanigans" that just needed a fiduciary council and actuary council approval. Ms. Jamison stated that she did not recall whether the corridor concept or the earnings stabilization came first. However, she said that the City constantly "tried every trick it could think of" to get contribution relief. Ms. Jamison said that the actuary and fiduciary counsel gave advice to the Board based on actuary and fiduciary principles, but not their personal belief about the correctness of such relief. She said that underfunding in any case was not appropriate, but "they were all giving us outs." Ms. Blaskey asked whether Ms. Jamison got the impression that the actuary or fiduciary counsel had been pressured by anyone in the City; Ms. Jamison did not think they were pressured. She added that the Board constantly questioned the assumptions of the actuary, and Mr. Roeder would change his assumptions if he thought doing so was appropriate.

Ms. Blaskey asked Ms. Jamison to describe the City's and SDCER's financial health prior to MP-1. Ms. Jamison stated that prior to MP-1 the City spent too much money and did not receive enough revenue, but the SDCERS fund was growing and healthy. She said that everyone thought that the earnings growth of the stock market in the 1990s would continue, but her financial background gave her a gut feeling that there could be problems with the stock market in the future. Ms. Jamison stated that the City Manager's office pounded the actuary behind the scenes to learn what would make them comfortable with MP-1. Ms. Blaskey asked how she knew that this was the case. Ms. Jamison stated that she had a sense that this happened because she knew Mr. McGrory and Mr. Herring.

Ms. Blaskey showed Ms. Jamison May 19, 1995 special retirement Board minutes (Exhibit 8). Ms. Blaskey explained that the minutes reflected that Morrison and Foerster issued an opinion that the transfer of funds from the Earnings Stabilization Reserve to the Employer Reserve was not permissible. Ms. Blaskey directed Ms. Jamison to page 18 of the minutes indicating that Ms. Jamison voted on the motion to accept Morrison and Foerster's opinion. Ms. Jamison stated that it made sense that she came down on the opposite side of the issue as Mr. Saathoff, but she did not recall the specifics of the vote. She also said that it seemed odd that the Board voted on a legal opinion.

Ms. Blaskey showed Ms. Jamison a packet of documents from a SDCERS Board strategic planning workshop from March 1996 (Exhibit 9) and asked Ms. Jamison if she remembered the workshop. Ms. Jamison stated that the Board tried to have workshops and did have them at least every three years to review capital markets and actuarial assumptions. Ms. Blaskey then directed Ms. Jamison to the second page of the minutes of the March 21, 1996

strategic planning seminar that reflected statements made by Dwight Hamilton. Ms. Jamison stated that she did not know if this meeting occurred before or after the Board hired Mr. Hamilton as its fiduciary counsel, but she did recall him making a presentation about fiduciary duties to the Board. Ms. Jamison added that she already understood what a fiduciary duty was at that time because she had served on the Board for 19 years, during which time the Board's executive director would talk to them about fiduciary duties at conferences. She said that Board members understood their fiduciary duties after serving on the Board for three or four years.

Ms. Blaskey asked Ms. Jamison to recount her first recollection of MP-1. Ms. Jamison said that Mr. McGrory had been presenting the idea, but it did not get a positive reception. She stated that she was dumbfounded that Mr. McGrory "bought off the unions," and that she did not think there was any doubt in anyone's mind that the unions had been bought off. Ms. Blaskey asked what the buy-off was. Ms. Jamison said that the buyoff was that the unions received more benefits.

Ms. Blaskey asked whether Ms. Jamison understood that the contribution rates used in conjunction with MP-1 would account for the increased costs to City for granting benefits to the unions. Ms. Jamison responded that she did not think that was the right question. She stated that there was an underlying actuarial rate that had to go up with the benefits and the City's contribution rate was pushed out for later on. Ms. Jamison said theoretically the City would have to contribute more in the future, but her perception was that the stock market would bail the City out. Ms. Blaskey asked whether Ms. Jamison believed that MP-1 would have to be adjusted in the future when MP-1 was presented to her. Ms. Jamison responded that she did not suspect MP-2 would occur when she agreed to MP-1, but she did think there was a possibility that the cap would be triggered. However, she did not think that the trigger would be hit as a result of the stock market dropping as fast as it did. Ms. Blaskey asked if the increase of the new benefits contributed to the trigger being hit. Ms. Jamison answered that the increase in benefits would have contributed to the trigger being hit because it would have increased the underlying actuarial contribution rate. However, she stated that the drop in the pension from being 98% to 82% funded did not occur solely as a result of the benefits because without the market dropping the trigger would not have been hit.

Ms. Blaskey asked whether there were discussions during MP-1 that the City's contribution rates would stay the same over time. Ms. Jamison responded that she did not think the City would have increased the benefits if the trigger had not been breached. She said that the City needed to buy more time because it would have had to bring the funded ratio back up to 82% if the trigger was hit. Ms. Jamison said that the version of MP-1 that she had been showed recently by the F.B.I. in connection with its investigation into the City's pension issues did not mention rates but stated that the City would have to put in a cash infusion into the pension system should the trigger be hit. Ms. Blaskey asked Ms. Jamison what she recalled about what would happen if the trigger were hit back in 1996. Ms. Jamison responded that "all bets were off" and the City would have to make the system whole. She said that, therefore, under no circumstances could the system fall below 82.3 %, and the City was willing to use whatever mechanism it could to keep the system at that rate. Ms. Jamison stated that MP-1 would not have happened without the trigger, and the fiduciary council and actuaries had a negative reaction to MP-1 until the trigger was implemented. She added that Navigant Consulting said that the Board should have asked more questions about where the money would come from if the



trigger were hit. Ms. Jamison said, however, that Mr. McGrory would have responded that the City had places to get the money, even if he "made those sources up" and "dazzled" the Board. However, Ms. Jamison said that Mr. McGrory is credible. She also stated that he likes making deals and loves negotiating.

Ms. Blaskey asked whether Ms. Jamison recalled a time when the City was provided with a "contribution holiday." Ms. Jamison said it may have happened because other cities had such holidays. She added that the Board would not have voted on a contribution holiday for the City. Ms. Blaskey asked Ms. Jamison if she recalled the City having fiduciary counsel. Ms. Jamison stated that she could not recall.

Ms. Blaskey showed Ms. Jamison June 11, 1996 minutes of the SDCERS retirement Board's special workshop (Exhibit 10). Ms. Jamison stated that she recalled being at a Board meeting during which a long discussion about MP-1 occurred with Mr. Roeder and Mr. Hamilton. She noted that the meeting occurred in June and the City's budget had to be adopted in July. Ms. Jamison understood that the approval of MP-1 was time sensitive because if it did not occur by June the budget would not balance and cuts would have to be made. She also noted that newspaper reporters attended the meeting, such as Phil La Velle, and that the issues of the meeting were therefore public. Ms. Jamison said that for people to say that the deals surrounding MP-1 were secret is "crazy." Ms. Blaskey noted Ms. Jamison's comments on page 15 of the meeting minutes. Ms. Jamison stated that her comments reflected her concern that future tax payers would have to pay for the contribution relief later.

Ms. Blaskey asked Ms. Jamison what surplus earnings were. Ms. Jamison stated that the City looked at SDCERS funds as a big slush fund. She said that the Municipal Code defined excess earnings, but that earnings were not excess just because they fell into that definition. Ms. Jamison explained that the fund had an assumed return of 8% and anything over that return is called an excess earning, even though the pension may be only 2% funded. Ms. Blaskey asked if Ms. Jamison ever heard the term "extraordinary earnings." Ms. Jamison responded that she had never hear the term before and that it was never discussed at Board meetings.

Ms. Blaskey showed Ms. Jamison the Retirement System Proposal (Consolidated from Proposal dated June 7, 1996 as modified by June 21, 1996 Proposal) (Exhibit 11). Ms. Blaskey read issue number 3(B) on page 7 of the document which related to the City's contribution rates. Ms. Jamison volunteered that she did not know who drafted the language of the document. She said that her guess was that the document did not come before the Board prior to its vote on MP-1 since the Board could have modified MP-1 prior to it being written in its final form. Ms. Blaskey asked if the Board saw any version of MP-1 prior to voting on it. Ms. Jamison stated that she thought the Board had the materials from the presentation discussed earlier in the interview. She was unsure if the Retirement System Proposal was provided to the Board in that package or otherwise. Nevertheless, she said that the charts in the document looked familiar, although she stated that the charts could have been part of the workshops as well. Later in the interview Ms. Blaskey referred back to page one of the Retirement System Proposal that discussed retiree health insurance. Ms. Jamison stated that she did not recall retiree health benefits discussed and that the MP-1 discussion revolved primarily around the payment schedule and the cap. Ms. Jamison said that the retirement health benefit was brought to the Board without any discussion.

Ms. Blaskey showed Ms. Jamison June 21, 1996 Retirement Board Minutes (Exhibit 12) and referred her to page 31 of the minutes. Ms. Blaskey asked if Ms. Jamison recalled Mr. Casey leaving the meeting prior to the vote on MP-1. Ms. Jamison answered that she did not recall Mr. Casey leaving.

Ms. Blaskey asked Ms. Jamison if she discussed her vote on MP-1 with Mr. McGrory; Ms. Jamison stated that she did not. Ms. Blaskey asked if she recalled why Ms. Parode voted against MP-1. Ms. Jamison stated that Ms. Parode, who was an independent member of the Board, was furious, had a financial and legal background, and did not have constraints of working for the City. Ms. Blaskey asked if Ms. Jamison knew why Jack Katz (Board Member) voted against MP-1. Ms. Jamison responded that she would not be surprised if Mr. Katz voted no because the unions received deals but retirees did not, and he was the retiree representative on the Board. Ms. Blaskey asked if Ms. Jamison knew why Paul Barnett (Board Member) voted against MP-1. Ms. Jamison responded that Mr. Barnett was a banker with a financial background. Ms. Blaskey asked why Ms. Webster voted for MP-1. Ms. Jamison stated that as the City Auditor and Comptroller, Ms. Webster had to balance the budget, and that was her motivation for approving MP-1. Ms. Jamison said that she did not try to change Ms. Webster's mind about MP-1, because she understood the pressures that were on Ms. Webster.

Ms. Blaskey showed Ms. Jamison a July 16, 1996 memorandum from Mr. Casey to Fiduciary Counsel via Retirement Administrator (Exhibit 13) and asked if Ms. Jamison recalled why Mr. Casey was against MP-1. Ms. Jamison responded that Mr. Casey was on the board of the white collar union and felt that his union got slighted during the negotiations surrounding MP-1. Ms. Jamison then noted that Mr. Casey wrote in his memorandum that he did not believe any of the Board Members voted for MP-1 for personal gain, but that the conflict of them voting on the proposal was real. She stated that, technically speaking, the Board was voting to administer the benefits. Ms. Blaskey asked whether Ms. Jamison believed that any of the Board Members voted for MP-1 to receive benefits. Ms. Jamison responded that she did not think that anyone voted for MP-1 to receive benefits except Mr. Saathoff. She explained that Mr. Saathoff's job was to obtain benefits for his union. Ms. Jamison said that Mr. Saathoff negotiated for his union to give himself more power as the president, not for personal monetary gain. She stated, "People honestly cared about the City. People didn't vote for MP1 to get more benefits."

Ms. Blaskey asked whether Ms. Jamison had a role in obtaining benefits for the pension system's members. Ms. Jamison stated that the argument was made that it was good if the system's members were better off, but she did not agree with that argument because the *granting of benefits was the Council's responsibility and the Board only was to administer the trust*. Ms. Blaskey asked whether Ms. Jamison recalled any response to Mr. Casey. Ms. Jamison said that she did not. Ms. Blaskey showed Ms. Jamison an October 10, 1996 memorandum from Mr. McGrory to the Mayor and City Council attaching a September 19, 1996 letter from Mr. Hamilton to Mr. Grissom (Exhibit 14). Ms. Jamison stated that she would not have been privy to seeing Mr. Hamilton's letter.

Ms. Blaskey asked Ms. Jamison if she recalled an increase in the 13<sup>th</sup> Check benefit as a result of MP-1. Ms. Jamison stated that she did not recall such an increase, but an increase to the 13<sup>th</sup> Check benefit probably would have explained why Mr. Katz voted no on

MP-1. Ms. Blaskey asked Ms. Jamison to describe Ms. Chapin's involvement on advising the Board during MP-1. Ms. Jamison said that Ms. Chapin had input into all legal related issues.

Ms. Blaskey showed Ms. Jamison a document entitled "Adoption of SDCERS' FY 99 Actuarial Valuation" (Exhibit 15) and read the last sentence of the first paragraph to Ms. Jamison. That sentence stated, "As long as SDCERS's funding ratio stays above 82.3%, [Mr. Roeder] said he feels comfortable with what is going on given the corridor funding method and the rate structure in place." Ms. Jamison was not familiar with what this meant. Ms. Blaskey showed Ms. Jamison March 10, 1999 SDCERS Retirement Board Actuarial Workshop minutes. Ms. Jamison stated that it was common to have a workshop to discuss actuarial assumptions, especially if the Board did not like the rate. Ms. Blaskey asked if changing the assumptions was a way for the City to receive a break. Ms. Jamison responded that it was, but said that the rates rarely were changed. She also stated that when the rates were changed, such changes were marginal. Ms. Blaskey asked who was trying to change the rates; Ms. Jamison responded the Manager's representative, the auditor, and anyone concerned with the contribution rates. Ms. Blaskey asked if Mr. McGrory met with the Board in an attempt to change the rates. Ms. Jamison stated that the only time Mr. McGrory came to the Board was during MP-1. Ms. Blaskey asked if Mr. Ryan met with the Board in an attempt to change the rates. Ms. Jamison said that Mr. Ryan came once, but she did not recall him influencing the assumptions.

#### *Purchase of Service Credits*

Ms. Blaskey asked Ms. Jamison if she recalled the Board providing Mr. Grissom with service credits. Ms. Jamison stated Mr. Grissom received service credits because he had been working for the System for 10 years and it was easier to give Mr. Grissom money to purchase credits rather than give him a raise. She said the Board wanted to keep Mr. Grissom because it liked him, and this was a creative way to compensate him. In addition, Ms. Jamison stated it would cost the same and would allow Mr. Grissom to retire early. Ms. Jamison added that the arrangement was unique to Mr. Grissom and the Board had to get everyone's blessing to implement it. She also said that people in the City did not like this arrangement.

Ms. Blaskey showed Ms. Jamison an April 6, 1999 e-mail from Ms. Webster to Ms. Jamison (Exhibit 16) in which Ms. Webster discussed Mr. Grissom's purchase of service. Ms. Blaskey read from Ms. Webster's e-mail "As you know 'the City' and especially my Office is often portrayed negatively in public Board meetings by those who have the power of the floor which is totally inappropriate, inaccurate and unprofessional." Ms. Jamison said that Ms. Webster was referring to Mr. Saathoff in that quote and noted that Ms. Webster and Mr. Saathoff did not get along because of their conflicting personalities. Ms. Blaskey then referred to the portion of Ms. Webster's e-mail where Ms. Webster stated that the "'facts' given to the Board aren't always accurate." Ms. Jamison said that she remembered this e-mail generally. She added that it appeared from the e-mail that Robert Scannell (Board Member) made a statement that Mr. Grissom was in the low to medium range of his peers and Ms. Webster did not agree. Ms. Jamison said that it was Ms. Webster's right to check the calculations, but she received a lot of grief for questioning numbers and was very sensitive. Ms. Blaskey referred Ms. Jamison to page 3, number 2 of the April 2, 1999 memorandum from Ms. Webster to Ms. Chapin that was attached to the April 6, 1999 e-mail. Ms. Blaskey asked whether Ms. Webster ever was concerned whether Ms. Chapin or her staff was less than accurate. Ms. Jamison responded that one of Mr. Grissom's assistants was incompetent and was fired.

Ms. Blaskey showed Ms. Jamison a December 11, 1998 e-mail from Ms. Webster to Ms. Jamison regarding SDCERS financial statements (Exhibit 17). Ms. Blaskey read to Ms. Jamison the e-mail in which Ms. Webster stated that the Board was not receiving current financial statements. Ms. Jamison said that she did not recall the e-mail. Ms. Jamison added that the Board received information in monthly reports, actuarial reports, and consultant reports. Thus, she said that the Board had financial information, but not in an official financial report, which would have been unaudited anyway. Ms. Jamison also said that she could not understand why Ms. Webster cared when the Auditor and Comptroller's office does not get out its own statements "nine months out of the year." Ms. Blaskey asked Ms. Jamison if the issue in the e-mail was resolved. Ms. Jamison stated that because Ms. Webster had this concern, it appeared to be a big issue, so she assumed it got resolved. Ms. Jamison added that if the Auditor and Comptroller was unhappy, she had to rectify the problem even if she thought it was a dumb idea. She stated, however, that she thought that providing the Board with updated financials was a good idea.

Ms. Blaskey showed Ms. Jamison an August 13, 1999 e-mail from Ms. Webster to Mr. Herring and Ms. Jamison regarding SDCERS (Exhibit 18). Ms. Jamison commented that she recalled the e-mail exchange discussing the Board's fiduciary counsel, Robert Klausner's, ability to practice law in California. She stated that Mr. Klausner was a distant contact of Mr. Saathoff's who was brought in to replace the Board's then-current fiduciary counsel. Mr. Saathoff liked Mr. Klausner, but Mr. Klausner was "very glib and showman-like." Ms. Jamison added that it turned out that Mr. Hamilton could not practice law in California either. She said that some of this e-mail resulted from Ms. Webster's ongoing fight with Mr. Saathoff.

Ms. Blaskey asked Ms. Jamison what the funded ratio of the pension was when Ms. Jamison left City office in 2001. Ms. Jamison stated that she did not recall the status of the funded ratio at that time, but said that it was not below 82.3%. She added that the Board would not have had the actuarial report for that year, but it would have had the report based on 1999, which was when the stock market was doing very well.

### ***Corbett***

Ms. Blaskey asked Ms. Jamison if the *Corbett* benefits were contingent. Ms. Jamison stated that, legally, the benefits were contingent. She explained that the benefits were not distributed for a couple of years because there was no money and it was an expense that accrued. She also said that if there was never any money, the retirees would not get the benefits. Ms. Jamison said that she understood the benefits were made contingent to keep them out of the actuarial valuation. She added that she recalled Mr. Herring and others who wanted to settle the *Corbett* lawsuit being proponents of this arrangement. Ms. Jamison said that the Board did not get involved with the negotiations, and the attorneys advised the City that the risk of losing *Corbett* was high. Ms. Blaskey asked if the parties to the *Corbett* lawsuit would have cared whether the benefits were contingent. Ms. Jamison stated that the parties who were retired would prefer the benefits not to be contingent, but by settling the case they got nothing. She said that the only way the City would settle the case was if the benefits were contingent. Ms. Blaskey asked if the Board cared if the benefits were contingent. Ms. Jamison responded that the Board would not care theoretically, but it had to care. She explained the Board's thinking was "do we do a bad deal now or take a risk that we'll have a worse deal later on?"

## *MP-2*

Ms. Blaskey showed Ms. Jamison July 11, 2002 Retirement Board minutes (Exhibit 19) and directed Ms. Jamison to the comments made she made about MP-2 on page 25. Ms. Jamison explained that her biggest concern with MP-2 was that the City hit the floor and did not want to abide by MP-1. Thus, she explained her feeling that the City could not be trusted to stick by its promises in the future. Ms. Jamison said that she thought MP-2 was a horrible decision because it compounded the problem of MP-1 by giving away more benefits, which is not in the City's interests, and it was being done to avoid paying the lump sum as a result of the trigger being hit. She said that the City was "in between a rock and a hard place, but it wasn't the Board's job to bail them out."

Ms. Blaskey asked why the union employees attended the meeting. Ms. Jamison stated that she believed that the union employees were there to do good things for their union. She said that she did not know why the union people voted for MP-2, except maybe to help the City and do their civic duty. Ms. Blaskey asked why the Manager proposed MP-2. Ms. Jamison stated that MP-2 was not necessarily the result of bad faith on behalf of the Manager. She explained that the Manager learned from MP-1 that tying contribution relief to benefits would gain approval of the Board. Ms. Blaskey asked if Mr. Saathoff's Presidential Leave was an extra benefit for Mr. Saathoff. Ms. Jamison answered that Presidential Leave would have been only a result of Mr. Saathoff's desire to make deals. She said that Mr. Saathoff's main motivation was to obtain benefits for his members.

## *Diann Shipione*

Ms. Blaskey asked Ms. Jamison for her impressions of Ms. Shipione. Ms. Jamison said that Ms. Shipione was a "big pain in the neck," and explained that Ms. Shipione accused all of the Board's consultants of acting adverse to the Board. Ms. Blaskey asked why Ms. Shipione acted against MP-2. Ms. Jamison responded that she did not know what motivated Ms. Shipione. She said that prior to MP-2, Ms. Shipione wanted to complain about everything and created work for the Board's staff because she wanted reports on everything. Ms. Jamison also said that Ms. Shipione began demanding that everything she said be placed on the Board minutes long before MP-2. Ms. Jamison stated that she was very good friends with Ms. Shipione's husband's ex-law partner, and through him she learned that Ms. Shipione's husband, Pat Shea, wanted Ms. Shipione to run for City Council or some other political office. Ms. Jamison said that Ms. Shipione took a class on investing at Merrill Lynch and she would discuss the theories from her class at the Board meeting even though they did not make sense to speak about them there. She also stated that when she was on the Board, everyone was sick of Ms. Shipione. Ms. Jamison said that Ms. Shipione's accusations that things happened behind the scenes and her portrayal as a whistle blower was odd because the pension issues were all public. Ms. Jamison said that Ms. Shipione "was telling the truth about a lot of stuff, but it was not secret."

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